State of Montana

Report to the Legislature

DEPARTMENT OF COMMERCE

Financial and Compliance Audit
For the Two Fiscal Years Ended June 30, 1983

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
STATE CAPITOL • HELENA

State of Montana

Report to the Legislature

DEPARTMENT OF COMMERCE

Financial and Compliance Audit
For the Two Fiscal Years Ended June 30, 1983

83-14

Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620

TABLE OF CONTENTS

TABLE OF CONTENTS (Continued)

TABLE OF CONTENTS (Continued)

DEPARTMENT OF COMMERCE

ADMINISTRATIVE OFFICIALS

Gary Buchanan	Director
Les Alke	Administrator Financial Division
Michael D. Ferguson	Administrator Aeronautics Division
William J. Fogarty	Administrator Transportation Division
Nancy Leifer	Administrator Community Development Division
Jay McLeod	Administrator Housing Division
Brian McCullough	Administrator Management Services Division
George Pendergast	Administrator Local Government Services Division
Isabelle Pistelak	Administrator Division of Business & Professional Licensing
Byron Roberts	Administrator Business Assistance Division
John Wilson	Administrator Montana Promotion Division

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply.

SUMMARY OF RECOMMENDATIONS (Continued)

SUMMARY OF RECOMMENDATIONS (Continued)

SUMMARY OF RECOMMENDATIONS (Continued)

	Page
Recommendation #20 The department comply with the law relating to physical therapists, employees of the Board of Real Estate, and confirmation of board members.	22
Agency Response: Partially concur. See page 64.	
Recommendation #21 The department:	
A. Establish disaster recovery procedures which will assure housing assistance warrants are produced on a timely basis.	24
Agency Response: Concur. See page 65.	
B. Establish rules to implement the computer file security system.	24
Agency Response: Concur. See page 65.	
C. Review changes to production programs to ensure all adjustments were proper and authorized.	24
Agency Response: Do not concur. See page 65.	
Recommendation #22 The department establish procedures to ensure notes receivable are properly recorded on its financial records in accordance with state policy.	25
Agency Response: Concur with reservations. See page 65.	
Recommendation #23 The department record revenue in accordance with state policy.	27
Agency Response: Concur. See page 66.	
Recommendation #24 The department accrue expenditures for services in accordance with state policy.	28
Agency Response: Concur. See page 66.	

INTRODUCTION

We performed a financial/compliance audit of the Department of Commerce (DofC) for the two fiscal years ended June 30, 1983. The objectives of the audit were to: (1) determine if the department's financial statements present fairly its financial position for the fiscal year ended June 30, 1983 and the results of its operations for each of the two fiscal years then ended; (2) determine the department's compliance with applicable laws and regulations; and (3) make recommendations for improvement in the department's management and internal controls.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in the report. Each report section discloses the cost, if significant, of implementing the recommendation.

To meet federal reporting requirements the body of the audit report discusses instances of noncompliance with federal laws and regulations.

We thank the director and his staff for their cooperation and assistance during our audit.

BACKGROUND

The Department of Commerce was established by the 1981 Legislature. It was formed by combining the Departments of Community Affairs, Professional and Occupational Licensing, and Business Regulation. General rules governing the department are detailed in section 2-15-1801, MCA.

The mission of the Department of Commerce is to promote, develop, and regulate commerce. The department accomplishes its mission by helping to create a positive business climate; providing technical and financial assistance to businesses and communities; and enforcing laws and establishing standards to protect the public. It is responsible for transportation and aeronautics as well. Organizationally, ten divisions report to the director, who also chairs the State Banking Board. The department consists of the following divisions.

Business and Professional Licensing Division - regulates and licenses businesses through Bureaus for Professional and Occupational Licensing, Weights and Measures, and Milk Control plus a Consumer Affairs Unit. The County Printing Board is also supported by this division.

Transportation Division - provides technical, planning, and financial assistance to transportation agencies and users through its Litigation and Analysis as well as Planning and Assistance Bureaus. The former offers transportation-related legal assistance and economic analyses while the latter has sections devoted to both community and passenger transit. This division also supports the Governor's Transportation Advisory Council.

Aeronautics Division - is responsible for airport development and operations, aeronautical search and rescue missions, and aerospace education. This group manages West Yellowstone Airport which is open for six months each year as well.

Financial Division - consists of the State Banking Board and department staff who are responsible for chartering, licensing, supervising, and examining state banks, savings and loan associations, credit unions, consumer loan licensees and sales finance companies.

Management Services Division - performs the centralized services for the department in the areas of purchasing, information and education, accounting, budgeting, payroll, personnel, statistics, reports, records management and internal department procedures.

Housing Division - administers the state Housing Act of 1975, the Federal Section 8 Housing Program, and the Federal Housing Block Grant to provide rental assistance to low-income families who are unable to afford adequate, safe housing.

Montana Promotion Division - is responsible for marketing the state of Montana as a location for new business, a vacation destination, and a motion picture and television commercial site. It also develops promotional programs for marketing Montana products.

Business Assistance Division - provides technical assistance to new and existing Montana businesses and provides information to facilitate the movement of new businesses to Montana.

Community Development Division - Provides assistance to communities, helping communities to determine changing needs for public works and local government services and identifying potential means of financing those needs.

Local Government Services Division - conducts financial and compliance audits according to generally accepted auditing standards; develops and installs budgetary, accounting and reporting systems for local governments; and provides technical assistance to local governments.

FEDERAL GRANTS

The Department of Commerce receives a portion of its funding from federal sources. The Office of Management and Budget (OMB) "Circular A-102, Attachment P," establishes audit requirements for state and local governments receiving federal assistance. Attachment P provides for independent audits of financial operations, including compliance with certain federal laws and regulations. We performed our audit of the department in accordance with the standards of OMB "Circular A-102, Attachment P."

We reviewed the major compliance areas in the Urban Mass Transportation Assistance (UMTA) Grants (sections 16 and 18), the Housing Assistance Payment Program Grants (Section 8), Existing and Moderate Rehabilitation Grants, Community Development Block Grants, and Rail Planning Grants. Areas reviewed include:

1. eligibility determination,
2. reporting systems,
3. reimbursement of indirect costs,
4. cost allowability,
5. compliance with specific grant requirements.

Federal regulations also require that recipients of federal grants maintain a financial management system that provides accurate, current, and complete disclosure of financial results; records that identify the source and application of funds; and effective control over and accountability for all funds and property.

During our review of federal grants received by DofC we noted problems in the financial management system and compliance problems in the following areas:

--section 8 housing internal control;

--underpayments of section 8 housing grant;

--housing site visits;

--federal property; and

--federal reports.

We discuss the problems identified with the financial management system and compliance in separate sections beginning on page 7 of this report.

We determined the effects of noncompliance on program accomplishments and the allowability of costs. In the following sections of our audit report we discuss compliance problems requiring disclosure in accordance with Attachment P. Nothing came to our attention that causes us to believe untested compliance issues are not in accordance with applicable laws and regulations.

As a result of our review, it is our opinion that the deficiencies noted did not significantly affect the successful operation of the programs or the allowability of costs in conformity with program regulations.

Federal Grant Expenditure Accruals

The department should record accrued expenditures for federal grants in the year the federal moneys become valid state obligations and not necessarily in the year which the department receives an appropriation. At fiscal year-end 1982-83 the department accrued $6.4 million in expenditures to record the unexpended balance of federal grant agreements outstanding. The agreements were made between the department and outside parties for community development and rail planning. The accrual amounts were not valid obligations of the state, and in accordance with state policy, the expenditures should not have been accrued. As a result, liabilities and expenditures are overstated by $6.4 million on the state's financial records.

Department officials accrued the unexpended portion of outstanding agreements for the Community Development Block Grant and Rail Planning Grants because: (1) they believed the department would lose its appropriation authority; and (2) they thought the state would lose a portion of the grant moneys. During the previous legislative session, department officials knew the grant moneys would be spent over a period of years in excess of those

covered by appropriation. At that time the department should have requested the legislature authorize a continuing appropriation for these grants. As an alternative the department could have requested a budget amendment that would allow the department to record expenditures in the proper year.

RECOMMENDATION #1

WE RECOMMEND THE DEPARTMENT:

A. ACCRUE ONLY EXPENDITURE TRANSACTIONS THAT ARE VALID STATE OBLIGATIONS IN ACCORDANCE WITH STATE POLICY.

B. REQUEST CONTINUING APPROPRIATIONS FOR FEDERAL FUNDS THAT WILL BE SPENT DURING TWO OR MORE YEARS.

Federal Match

Federal regulations require the department to match federal expenditures for CDBG administrative costs with an equal amount of state moneys. In fiscal year 1981-82 the department spent $132,000 of General Fund money and none of the federal moneys for CDBG administrative costs. That year the General Fund paid $66,000 more than was required. State law requires that agencies spend non-General Fund moneys to the extent possible before General Fund moneys are spent. The federal moneys were available to the department at the time the expenditures were made. Since the department spent more General Fund money than federal moneys for administrative costs, the department did not comply with the law.

In fiscal year 1982-83 the department spent $57,000 of federal moneys and no General Fund money. The net result after two years of expenditure activity is that the General Fund has spent $37,500 more than required under the terms of the grant agreement. Department officials indicated that at the end of the grant period the General Fund and federal fund portions of the program would be fully matched.

RECOMMENDATION #2

WE RECOMMEND THE DEPARTMENT SPEND NON-GENERAL FUND MONEYS TO THE EXTENT POSSIBLE BEFORE SPENDING GENERAL FUND MONEYS AS REQUIRED BY LAW.

Block Grant Revenue and Expenditures

Community Development Block Grants (CDBG) are granted to various communities for specific community development projects. The DofC considers these grants pass-through money and does not record the revenue or expenditures of these funds on the state's financial records.

Because the department has the authority to decide which community receives the CDBG money, and how much they receive, the CDBG funds should not be considered pass-through moneys. Therefore, the department should record the revenues and expenditures associated with CDBG funds in the Special Revenue Fund. As a result, CDBG revenues and expenditures in the Special Revenue Fund are understated by $960,651 in fiscal year 1982-83.

RECOMMENDATION #3

WE RECOMMEND THE DEPARTMENT PROPERLY RECORD REVENUE AND EXPENDITURES FOR GRANTS.

EDA Loans

Economic Development Administration (EDA) loans were made for community development projects with 80 percent federal moneys and 20 percent General Fund moneys. None of the EDA notes receivable or payments received are recorded in the General Fund. This resulted in an understatement of General Fund and an overstatement of Special Revenue Fund assets and interest income amounting to $32,556 and $2,123, respectively, in fiscal year 1982-83.

A department official indicated the EDA loans have been recorded in the Special Revenue Fund from the time the loans were transferred to Commerce from another state agency. He said the

department will correct the accounts so that the General Fund properly reports its share of the notes receivable and interest income.

RECOMMENDATION #4

WE RECOMMEND THE DEPARTMENT RECORD NOTES RECEIVABLE AND INTEREST INCOME IN THE PROPER FUNDS.

Section 8 Housing Internal Control

The Section 8 Housing Assistance Program was established by the U.S. Department of Housing and Urban Development (HUD) to help lower income families pay rental costs. The Department of Commerce administers the program in Montana. In fiscal year 1982-83 the department paid approximately $4.4 million in assistance payments to landlords on behalf of lower income families.

During our audit period, internal control weaknesses existed in the Housing Assistance Payments Program. Program managers could initiate changes to the program's payment system and no control procedure was established for an independent authorization or review of the changes. Because a person independent of the payment system does not review the changes, the department increases the risk that errors or intentional additions will occur without detection.

Also the department did not reconcile the monthly award amounts to the total amount of additions or deletions input to the system. This reconciliation would indicate whether changes in total amount paid each month are the result of authorized additions or deletions. Documentation of the monthly reconciliations should be kept by the department for at least three years. This procedure, if performed properly, should help detect any unauthorized changes to the payment system.

Federal regulations require that all organizations which receive federal moneys have an adequate system of internal accounting controls. Because the weaknesses described above are

serious, we have determined the internal controls over the Lower-Income Housing Assistance Programs are not adequate.

In September 1983 we discussed this issue with department officials. At that time the officials indicated concern over the internal control in the Section 8 housing program and they are working to correct the weaknesses through reorganization and a new computer program.

RECOMMENDATION #5

WE RECOMMEND THE DEPARTMENT ESTABLISH AN ADEQUATE SYSTEM OF INTERNAL CONTROLS OVER THE HOUSING ASSISTANCE PAYMENTS PROGRAM.

Underpayments for Section 8 Housing Grant

The department issued approximately 31,000 housing assistance warrants during our audit period. Because of the internal control weaknesses discussed in the previous section, we sampled 128 housing assistance warrants to estimate the amount of errors or misstatements. Of the 128 warrants tested, 8 contained errors. Using a confidence level of 90 percent, we estimated between 898 and 3,581 of the warrants issued during the audit period were in error. For those warrants issued with errors, the projected error range is from $1.18 to $14.82 underpayment per warrant.

During our testing we noted the following types of errors:

--Improper utility amounts were used in calculating the utility allowance.

--The incorrect number of dependents were used in the calculations.

--Housing payment changes, due to reexamination, were not input to the computer on a timely basis.

--Improper calculation of the applicant's income.

One of the objectives of the Section 8 program is to aid low-income families to obtain decent, safe and sanitary housing

through a system of rental subsidies. In order to meet this objective the department should strive to ensure recipients receive the proper aid amount.

RECOMMENDATION #6

WE RECOMMEND THE DEPARTMENT ESTABLISH PROCEDURES TO ENSURE PAYMENTS TO SECTION 8 RECIPIENTS ARE CORRECT.

Housing Site Visits

Department personnel have not been conducting annual visits to housing sites as required by the Section 8 Housing Assistance Program regulations. Currently, field agents who work for local housing authorities or development councils conduct annual housing inspections for all participants in the program. The purpose of these visits is to assure the housing is safe, decent, and sanitary. Federal regulations require the department personnel to visit at least 5 percent of those sites annually to determine whether the field agents' inspections were properly completed

The Section 8 program manager did not know why site visits were not being performed and we could find no documentation to support the lack of site visits. The program manager indicated that in the future, program personnel will begin visiting 5 percent of sites annually, as required by federal regulations.

RECOMMENDATION #7

WE RECOMMEND THE DEPARTMENT CONDUCT VISITS TO SECTION 8 HOUSING SITES IN ACCORDANCE WITH FEDERAL REGULATIONS.

Federal Property

Federal regulations require all equipment purchased with federal grant moneys and owned by the federal government be marked to indicate federal ownership. The regulations also require

a listing of all equipment owned by the federal government be submitted annually to the appropriate federal agency and a physical count of the equipment be taken at least every two years.

The department has not complied with these regulations. It does not mark equipment owned by the federal government to indicate federal ownership. It does not submit a list of federally owned equipment annually to the responsible federal agency and the department does not count its equipment periodically.

A department official said Management Services Division is in the process of setting up its property accounting system as it relates to property purchased with federal moneys. The division intends to include procedures to assure the department will comply with the federal regulations discussed above. No implementation date has been set.

RECOMMENDATION #8

WE RECOMMEND THE DEPARTMENT:

A. MARK ALL EQUIPMENT OWNED BY FEDERAL AGENCIES TO INDICATE FEDERAL OWNERSHIP.

B. SUBMIT ANNUAL INVENTORY LISTINGS OF FEDERAL EQUIPMENT TO THE RESPONSIBLE FEDERAL AGENCY.

C. TAKE A PHYSICAL COUNT OF ALL FEDERAL EQUIPMENT AT LEAST EVERY TWO YEARS.

Federal Reporting Requirements

Deficiencies were noted in the department's compliance with federal grant reporting requirements as follows:

1. Quarterly performance reports are not submitted for the Section 8 Existing. Annual performance reports are not submitted for the UMTA Section 18, or the Rail Planning Grants, as required by Office of Management and Budget, Circular A-102, Attachment I. Managers for the grants listed above stated they either did not know about the requirements, or they were not concerned about it, because the federal agencies had never asked specifically for these reports.

2. Annual certification of project use required under UMTA order 5010
4 are not submitted to the federal government for UMTA-16 projects. The program manager stated he had forgotten to submit these reports for fiscal years 1982 and 1983.

3. Financial Status Reports (FSR) are not submitted on a timely basis. Attachment H, Circular A-102, requires FSRs to be submitted within 30 days of the end of the period. Out of a sample of eight FSRs reviewed, six were not submitted in a timely manner.

RECOMMENDATION #9

WE RECOMMEND THE DEPARTMENT:

A. ESTABLISH PROCEDURES TO ENSURE PROGRAM MANAGERS ARE AWARE OF THE FEDERAL GRANT REPORTING REQUIREMENTS.

B. COMPLY WITH FEDERAL GRANT REPORTING REQUIREMENTS.

PROPERTY, PLANT, AND EQUIPMENT

The department uses the state Property Accountability Management System (PAMS) to account for its fixed assets. The following sections discuss our concerns over the internal control and recording of the department's property, plant, and equipment.

Internal Control

The department does not have an adequate system for controlling and recording equipment as required in state policy. During our testing of equipment we noted the following concerns that indicate a general weakness in the department's accounting and control over its fixed assets.

1. The Department of Commerce has not taken a complete physical count of its equipment since the department was established on July 1, 1981. State policy requires that agencies periodically count equipment to determine disappearance, theft, or unauthorized transfers. The department should periodically take a physical count of its equipment as required by state policy.

2. New equipment purchases and disposals of obsolete equipment are usually not recorded on the state's property accounting records as required by state policy. The department should record all acquisitions and dispositions of equipment on PAMS.

3. Property management personnel are normally not notified when equipment is transferred among the various divisions. The department should assign responsibility for items of equipment with division administrators or bureau chiefs. An employee in each division or bureau could be delegated the responsibility and required to sign a receipt for the equipment. This individual should be responsible for communicating changes in equipment status to the property management personnel in the Management Services Division.

4. Twenty-one percent of equipment items we tested were not properly tagged with a state identification number as required by state policy. Each item of equipment should be properly tagged to enable property management personnel to identify each item of equipment recorded on the state's accounting system.

The internal control weaknesses noted above significantly affect the reliability of the amounts recorded for property, plant, and equipment on the state's financial records. It was not practical for us to perform other substantive audit procedures to determine the reasonableness of the amounts recorded on the financial statements. Therefore, we disclaimed an opinion on the General Fixed Asset Account Group shown on the department's June 30, 1983 financial statements.

RECOMMENDATION #10

WE RECOMMEND THE DEPARTMENT:

A. INVENTORY ALL OF ITS EQUIPMENT PERIODICALLY AS REQUIRED BY STATE ACCOUNTING POLICY.

B. RECORD ALL ACQUISITIONS OF NEW EQUIPMENT AND DISPOSAL OF OBSOLETE EQUIPMENT ON THE PROPERTY ACCOUNTABILITY MANAGEMENT SYSTEM.

C. RECORD ALL EQUIPMENT STATUS CHANGES ON THE PROPERTY ACCOUNTABILITY MANAGEMENT SYSTEM.

D. TAG EACH EQUIPMENT ITEM WITH A STATE IDENTIFICATION NUMBER AS REQUIRED BY STATE ACCOUNTING POLICY.

Recording Buildings and Equipment

The following four sections describe situations where the department did not employ the appropriate procedures when accounting for buildings and equipment.

Buildings and Improvements - The department's financial statements report aeronautics division buildings and improvements amounting to $117,573. State accounting policy requires that all land and buildings used by the department except those belonging to the West Yellowstone Airport Enterprise Fund be recorded on the Department of Administration's property records. Since the Aeronautics Division buildings are not part of the West Yellowstone Airport Enterprise Fund, they should be reported on Department of Administration's property records.

Board of Housing Equipment - The equipment used by the Board of Housing is not recorded on PAMS. State accounting policy requires all fixed assets of state agencies be recorded on either the state's property records or a property system approved by the Department of Administration. The department should record Board of Housing's equipment on PAMS as required by state policy as the board has elected to utilize PAMS.

Depreciation - The department does not record depreciation on the state's financial records for enterprise and internal service funds as required by state policy. State accounting policy requires agencies which have self-supporting enterprises account for depreciation. Unless each year's revenue is charged with its proper share of depreciation expense, profit or loss on the state's financial records will be distorted.

Valuation of Equipment - During our tests of the department's property records, we noted several items of equipment were not properly valued in accordance with state policy. The errors occurred primarily with installment purchases, purchases involving freight and installation costs, and the purchase of computer software.

The errors occurred because the persons responsible for recording the transactions were not thoroughly familiar with the proper methods of recording equipment.

State policy requires that agencies record the actual cost of equipment on PAMS. Equipment should be recorded at the actual purchase price plus any freight or installation charges. Items purchased using installment payments should be recorded at the total cost of the items rather than the amount of the individual installment payments. Computer software should be capitalized and recorded on the state's accounting records.

As a result of the department's procedures the state's accounting records do not accurately reflect the department's plant, property and equipment.

RECOMMENDATION #11

WE RECOMMEND THE DEPARTMENT:

A. TRANSFER THE AERONAUTICS DIVISION BUILDINGS AND IMPROVEMENTS TO THE DEPARTMENT OF ADMINISTRATION'S PROPERTY RECORDS.

B. RECORD THE BOARD OF HOUSING EQUIPMENT ON THE PROPERTY ACCOUNTABILITY MANAGEMENT SYSTEM.

C. RECORD DEPRECIATION EXPENSE FOR ENTERPRISE AND INTERNAL SERVICE FUNDS ON THE STATE'S FINANCIAL RECORDS.

D. VALUE ITS EQUIPMENT IN ACCORDANCE WITH STATE ACCOUNTING POLICY.

Equipment Disposal

State regulations require agencies to obtain prior authorization from the surplus property bureau of the Department of Administration before discarding state equipment. Department of Commerce employees should also obtain approval from the department employee responsible for the specific property prior to disposing of state property.

During our testing of six deletion transactions, we noted a sharp calculator which cost $215 was discarded without proper authorization from Surplus Property Bureau. Also, during testing of 47 items of equipment for existence, eighteen rolls of video tape which cost $958 could not be located by department personnel. A

property coordinator indicated the video tapes must have been thrown away when they were no longer usable. In both instances, we found no support documentation indicating the disposal of the property was approved by either the Surplus Property Bureau or the Department of Commerce management.

In addition, our testing indicated the department does not retain copies of support documentation for transfers of equipment to the Surplus Property Bureau. In two of six transfers we tested, the department did not use the appropriate forms to report transfers to Surplus Property Bureau as required by state policy. The department should comply with state policy regarding the disposal of equipment.

RECOMMENDATION #12

WE RECOMMEND THE DEPARTMENT:

A. ESTABLISH PROCEDURES TO ENSURE EQUIPMENT DISPOSALS ARE PROPERLY AUTHORIZED.

B. RETAIN DOCUMENTATION SUPPORTING THE TRANSFER OF EQUIPMENT TO SURPLUS PROPERTY BUREAU.

STATE COMPLIANCE

We have examined the financial statements of the Department of Commerce for the years ended June 30, 1982 and June 30, 1983, and have issued our report thereon dated December 16, 1983. Our examination was made in accordance with generally accepted governmental auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Except for the instances of noncompliance described in the following sections, the Department of Commerce complied with the terms and provisions of laws and regulations for the transactions tested. Nothing came to our attention in connection with our examination that caused us to believe that the Department of Commerce was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

The noncompliance conditions listed above were considered in determining the nature, timing, and extent of the audit tests to be applied in our examination, and these conditions do not affect our opinion on the Department of Commerce financial statements dated December 16, 1983.

Non-Treasury Cash Accounts

The Board of Housing of the Department of Commerce periodically maintains cash in non-treasury bank accounts. State law requires that state agencies deposit all money with the State Treasurer, or in a bank account designated by the State Treasurer.

The board periodically deposits cash received from financial institutions as security for loan allocations in local bank accounts before it is transferred to the trustee specified in the bond indenture. On November 4, 1983 the board had $3,642,000 on deposit in a Helena area bank for approximately 30 days. This bank account was not an account designated by the State Treasurer. The amounts deposited vary depending on the amount of the bonds issued.

RECOMMENDATION #13

WE RECOMMEND THE BOARD OF HOUSING AND THE DEPARTMENT DEPOSIT ALL MONEY IN ACCORDANCE WITH SECTION 17-6-105, MCA.

Call Reports

Call reports are statements of a bank's financial position. Section 32-1-235, MCA, requires the department to charge banks a $20 a day penalty if the report is not transmitted within 5 days after call. The department does not assess banks a late fee until 30 days after the call report is due.

State law requires that call reports be periodically submitted to the department. A department official indicated the 5 day rule

is too restrictive. The official said the federal government is less restrictive by allowing 30 days for banks to submit call reports.

RECOMMENDATION #14

WE RECOMMEND THE DEPARTMENT:

A. COMPLY WITH THE LAW REGARDING CALL REPORTS.

B. EVALUATE THE NEED FOR LEGISLATION TO CHANGE THE LAW RELATING TO CALL REPORT DUE DATES.

Building and Loan Reports

Building and loan annual reports are not being submitted as required by section 32-2-412, MCA. The law requires reports to be submitted on June 30. The department requires annual reports as of December 31. A department official indicated that in the future building and loan reports will be required semiannually, on June 30, and on December 31.

RECOMMENDATION #15

WE RECOMMEND THE DEPARTMENT COMPLY WITH THE LAW REGARDING THE SUBMISSION OF BUILDING AND LOAN REPORTS.

Milk Control Testing

Farmers are paid for milk based on the butterfat content of the milk they produce. In order to determine the value of the milk supplied by the producers the law requires the department to establish a program for testing raw milk. The law indicates the testing should be completed during routine audits of milk processing plants.

The milk control bureau does not perform tests on raw milk as prescribed in section 81-23-105, MCA. A department official indicated an appropriation for this testing was not received by the department and therefore the department could not comply.

RECOMMENDATION #16

WE RECOMMEND THE DEPARTMENT:

A. TEST RAW MILK AS REQUIRED BY LAW.

B. EVALUATE THE NEED FOR LEGISLATION TO CHANGE THE LAW REGARDING RAW MILK TESTING.

County Airline Property Tax

Proceeds from the county airline property tax are being deposited in the West Yellowstone enterprise fund, contrary to state law. Section 67-1-303(2), MCA, states the tax should be deposited in the Special Revenue Fund to carry out functions pertaining to aeronautics.

The tax is collected on the value of property owned by commercial airlines that use state airports. The West Yellowstone Airport is the only state owned airport and the airline property tax is assessed only on commercial airlines that use the West Yellowstone Airport.

A department official stated that 5 or 6 years ago the West Yellowstone airport was supported by the Special Revenue Fund. Since then the department began accounting for the airport as a self-supporting activity in the Enterprise Fund. At that time the department should have sought legislation to change the statute.

RECOMMENDATION #17

WE RECOMMEND THE DEPARTMENT:

A. DEPOSIT THE AIRLINE PROPERTY TAX IN THE SPECIAL REVENUE FUND AS REQUIRED BY LAW.

B. EVALUATE THE NEED FOR LEGISLATION TO CHANGE THE LAW RELATING TO AIRLINE PROPERTY TAXES.

Aircraft Registration

The department does not enforce statutes requiring all aircraft operated within the state be registered. Also, the department does not assess a late charge when aircraft owners fail to

register their craft by March 1, as required by law. A department official estimated that 50 percent of the aircraft in the state are not registered as required by law. Section 67-3-202, MCA, specifies a $100 penalty be added to the registration fee when an aircraft is registered late. The law also states, if an aircraft is dismantled or otherwise nonflyable it need not be registered.

The official indicated it is difficult to police whether an aircraft is nonflyable on March 1. The official believes the definition of nonflyable is too broad and it allows aircraft owners to escape the penalty. Therefore, as a matter of routine the department does not assess a penalty for late registration and does not enforce the statutes requiring all aircraft operated in Montana be registered with the department.

Department personnel should periodically inspect aircraft located at airports, and file a complaint against owners of aircraft which are not properly registered. It should apply the late registration penalty to all aircraft registered after March 1, unless the owner can provide evidence the plane was in nonflyable condition. The department should establish administrative rules clarifying the law where it has authority to do so.

RECOMMENDATION #18

WE RECOMMEND THE DEPARTMENT:

A. ENFORCE STATE LAWS REQUIRING THAT ALL OPERABLE AIRCRAFT BE REGISTERED WITH THE STATE.

B. APPLY THE LATE REGISTRATION PENALTY AS REQUIRED BY STATE LAW.

Airport Licensing

The department does not license airports as required by state law. Section 67-3-301, MCA, states proposed airports, restricted landing areas, and other air navigation facilities shall be first licensed by the department before use or operation. The law also states it is unlawful for a municipality, or for any person to operate an airport for which an annual license has not been issued

by the department. Section 67-3-303, MCA, sets forth standards for licensing airports, including such considerations as location, use, and safety. There is no record of the aeronautics division nor its predecessor, the aeronautics commission, licensing any airport since the law was enacted in 1945. The department requested an Attorney General opinion concerning this matter. The Attorney General did not rule because the department is currently involved in litigation. (Seeley Lake Homeowners' Association v. Department of Commerce [#49580]).

General Liquidating Account

The Financial Division has a general liquidating account (GLA) held outside of the state treasury which is not recorded on the state's accounting records. The account consists of three certificates of deposit totaling $20,655 and a checking account of $5,465. The account has increased due to earnings on some shares of stock owned by the account and interest on the certificates of deposit.

This account was established under section 32-1-517, MCA, in order to provide a means of collecting and disbursing funds to pay the expenses of liquidating banks. The account was designed to pay the expenses for banks that closed during the 1930s and 1940s. No state banks have closed since the 1940s and all the expenses of those banks have been paid.

There has been no expenditure activity in the account in the last six years. In the last 20 years the only expenditures made from the account were to purchase two file cabinets, costing $2,772 and a plane ticket costing $100. These purchases could have been purchased out of the division's appropriation.

Because of the lack of activity we consider the GLA a dormant account, which is no longer needed by the state. Since all of the expenses of the liquidating banks have been paid, and the liquidating account has been basically inactive for twenty years, the moneys should be disposed of as provided by law and the account closed. If it is anticipated that the account may be needed in the relatively near future, the account could be maintained but the balance should be zero.

In addition, the department improperly deposited interest earnings on the certificates of deposit in the GLA. Section 17-6-202(2), MCA, requires that securities purchased or cash on hand for all treasury fund accounts not otherwise designated by law to be invested, shall be invested in the treasury cash account with the income credited to the General Fund. We found no provision under the laws relating to liquidation of banks which allows the department to deposit investment earnings in the GLA rather than in the General Fund. Therefore, the investment earnings in this account should be deposited in the General Fund.

RECOMMENDATION #19

WE RECOMMEND THE DEPARTMENT:

A. CLOSE THE GENERAL LIQUIDATING ACCOUNT AND DISPOSE OF THE MONEY IN ACCORDANCE WITH STATE LAW.

B. DEPOSIT INVESTMENT EARNINGS ON THE ACCOUNT IN THE STATE GENERAL FUND.

Other Compliance Items

In addition to compliance items noted in the previous sections we also found the following instances where the department is not complying with the law.

1. The department does not charge for lists of Physical Therapists as required in section 37-11-201(4), MCA.

2. There is no procedure for assuring the Board of Real Estate is complying with section 37-51-201, MCA, which states employees of the board are not to be paid employers or officers of a realty firm.

3. One member of the Board of Nursing Home Administrators and one member of the Board of Accountancy were not confirmed by the Senate as required by law.

RECOMMENDATION #20

WE RECOMMEND THE DEPARTMENT COMPLY WITH THE LAW RELATING TO PHYSICAL THERAPISTS, EMPLOYEES OF THE BOARD OF REAL ESTATE, AND CONFIRMATION OF BOARD MEMBERS.

DATA PROCESSING

Background

The department utilizes 13 computerized systems to control its operations. The use of these systems range from budget and cost analysis, licensing and renewals, Section 8 housing applications and coal tax application to the system used by the Board of Housing for mortgages and bonds. The following sections discuss disaster recovery and security weaknesses we noted with the data processing systems.

Disaster Recovery

Under current state policies, an agency is responsible for arranging its own computer processing if the state's central computer is destroyed or damaged. The Computer Services Division (CSD) of the Department of Administration has a plan for establishing an emergency computer center, however, such a center would have limited processing capability. To use the center, an agency is required to obtain certification from CSD that its application is a priority to the state.

The department uses a computerized system to control housing assistance payments to lower income families. The system maintains assistance payment data and processes monthly warrants for lower income families amounting to $4.4 million per year. The department should seek a priority designation from CSD for this system.

The department should also prepare a written plan concerning how processing should take place in a disaster situation. Items to be considered include:

--What backup data files will be needed and where they will be stored.

--What backup computer programs will be needed and where they will be stored.

--How the department will make temporary payments while it cannot use the state computer.

--Who will coordinate with CSD to get the application running again.

The answers to these and other disaster recovery questions need not call for complicated solutions, however, they should be written to provide easy transition.

Computer File Security

The department's computer files are not adequately protected against unauthorized access. Without proper security over computer files, the department increases the risk of unauthorized disclosure of confidential information and of unauthorized changes to computer files which could adversely affect agency operations.

In September 1982, CSD purchased a computer file security system which enables each agency to provide security over its computer files. Each agency is responsible for establishing internal rules to use the system. The department has not yet established rules to implement the computer file security system.

EDP Program Security

The computer programs maintained by the department are not adequately protected against unauthorized changes, either accidental or intentional. Production program changes are completed by computer program personnel of the department, and by the Systems Development Bureau of CSD. Neither CSD nor the department has established quality control procedures to determine whether the program coding was properly altered.

When production programs are changed or returned from maintenance, department EDP supervisors should review the coding

changes before placing the program back into production to determine whether all adjustments were proper and authorized.

RECOMMENDATION #21

WE RECOMMEND THE DEPARTMENT:

A. ESTABLISH DISASTER RECOVERY PROCEDURES WHICH WILL ASSURE HOUSING ASSISTANCE WARRANTS ARE PRODUCED ON A TIMELY BASIS.

B. ESTABLISH RULES TO IMPLEMENT THE COMPUTER FILE SECURITY SYSTEM.

C. REVIEW CHANGES TO PRODUCTION PROGRAMS TO ENSURE ALL ADJUSTMENTS WERE PROPER AND AUTHORIZED.

ACCOUNTING ISSUES

The department's Management Services Division is responsible for proper application of accounting procedures. The division follows state accounting policy as detailed in the Montana Operations Manual. We reviewed the division's procedures for recording transactions on the state's accounting system. We noted the following problems with the division's accounting procedures.

Notes Receivable

The department does not properly record notes receivable for airport and rail planning loans on the state's financial records as required by state accounting policy. The Department of Administration, Accounting Division, has established specific accounting procedures for notes receivable to provide state agencies with necessary guidance to avoid accounting errors. During our audit of the department we noted three types of errors related to recording of notes receivable.

Burlington Northern notes receivable amounting to $2,141,000 were not recorded on the state's accounting records. The moneys were loaned to the Burlington Northern Railroad as part of a Economic Development Grant received by the state. The notes

receivable should have been recorded on the state's financial records.

The department improperly recorded an account payable after officials agreed to make an airport loan. The department should record loan transactions only after the money is loaned to airport officials, then a note receivable should be recorded on the state's accounting records. A liability should not have been recorded when the department agreed to the loan. This error caused a $40,000 overstatement of expenditures and accounts payable on the state's financial records.

The department did not comply with state accounting policy regarding proper procedures for recording airport note receivables. Currently, when the department loans the money it records an expenditure. When subsequent payment on the loan principle is received the department records revenue. For the same transaction the department records a note receivable and offsets the entry by recording a reserve for notes receivable. As a result of using improper accounting procedures, expenditures, revenues, and reserve for notes receivable are overstated on the state's financial records.

The following schedule summarizes the effect of the errors discussed above on the departments fiscal year 1982-83 financial statements.

Control Accounts	Amount of Misstatements	
Notes Receivable	$2,141,000	understatement
Reserve for Notes Receivable	445,449	overstatement
Prior Year Expenditures	542,282	overstatement
Current Year Expenditures	134,000	overstatement
Revenue	94,832	overstatement
Accounts Payable	40,000	overstatement

RECOMMENDATION #22

WE RECOMMEND THE DEPARTMENT ESTABLISH PROCEDURES TO ENSURE NOTES RECEIVABLE ARE PROPERLY RECORDED ON ITS FINANCIAL RECORDS IN ACCORDANCE WITH STATE POLICY.

Revenue Accruals and Deferrals

The department does not have procedures to ensure revenue accruals and deferred revenue are properly recorded on the state's financial records. State policy requires that revenue be accrued using the modified accrual basis of accounting.

Under the modified accrual basis, revenue is accrued when it is both measurable and available to finance expenditures of the fiscal period. Deferred revenue is recorded when cash is received or when accounts are receivable from another entity but the revenue recognition criteria have not been met; for example, amounts are measurable but not available. The following four sections discuss specific areas where the department improperly recorded revenue accruals and deferrals.

CDBG Deferred Revenue

The department improperly recorded deferred revenue and accounts receivable for Community Development Block Grant (CDBG) and other grant amounts awarded by the federal government but not yet paid to the state. The unpaid award amount will be spent by the department in future years for community and other development.

The transaction does not fit the criteria for deferred revenue because the award amount does not become an asset until the federal funds are spent. Also the department should not record a receivable from the federal government unless it has recorded an expenditure of its funds for the purposes of a grant and reimbursement from the federal grantor agency is pending. When the expenditure is recorded the agency has a valid receivable from the federal government. As a result of the department's procedures, revenue deferrals and accounts receivable on the state's accounting records are overstated by $6,362,260 in the Special Revenue Fund.

Distributor Milk Tax

The department recognizes milk tax revenue when the cash is received rather than when it is measurable and available. The

milk tax is withheld by processing plants from payments made to milk producers. The amount of the tax due at June 30 satisfies the accrual criteria under the modified accrual basis of accounting. Therefore, the revenue should be accrued at fiscal year end by the department. Revenue in the Special Revenue Fund is understated by approximately $40,000 in fiscal year 1981-82 because of this error.

Financial Institution Examination

Revenue from bank examinations is not recorded in the proper year. The department recognizes revenue from the examinations when the cash is received rather than when the amount earned is both measurable and available. Revenue should be recognized in the year services are rendered. When a financial examination overlaps two fiscal years, the department can estimate the amount of the accrued revenue. This resulted in an understatement of accounts receivable in fiscal year 1981-82 of $12,276 and in fiscal year 1982-83 of $3,268.

Grant Revenues

The department does not recognize federal grant revenue in the proper fiscal year. State policy requires that grant revenue be recognized in the year expenditures are incurred. The department recognizes revenue when cash from the federal government is received. This recording policy resulted in an understatement of federal assistance revenue of $231,288 and $133,778 in fiscal year 1981-82 and 1982-83, respectively.

RECOMMENDATION #23

WE RECOMMEND THE DEPARTMENT RECORD REVENUE IN ACCORDANCE WITH STATE POLICY.

Improper Accrual of Services

In fiscal year 1981-82 an improper expenditure accrual was established for development of a new Section 8 Housing computer system. The department accrued the $9,800 unexpended appropriation for start up of the new computer system. However, we found that no services had been rendered and no contract was written as of fiscal year-end 1982. State policy requires that services must have been rendered or the agency must have a valid written contract during the fiscal year in which the anticipated expenditure is to be accrued.

RECOMMENDATION #24

WE RECOMMEND THE DEPARTMENT ACCRUE EXPENDITURES FOR SERVICES IN ACCORDANCE WITH STATE POLICY.

Operating Transfers

Operating transfers occur when revenue or other resources are received by one agency or fund and then transferred to another agency or fund where the money will be expended. During our audit we noted several instances where operating transfers should have been recorded but the department improperly used another account classification.

The department transferred $325,000 from the County Land Planning Special Revenue Fund to the Educational Non-Expendable Trust Fund and recorded the transaction as prior year expenditure and prior year revenue, respectively. The department should have recorded an operating transfer-out in the Special Revenue Fund and an operating transfer-in in the Non-Expendable Trust Fund.

The department also received funds from the Department of Agriculture, the Department of Natural Resources and Conservation, and the Board of Investments. These moneys should have been recorded as an operating transfers-in but the department recorded the money transferred as revenue. This caused a $49,000 overstatement of revenue in the state's financial records.

A Department of Administration official indicated, prior to fiscal year 1983-84, the state's accounting system did not have the ability to properly record operating transfers. This meant that during our audit period agencies had no choice but to use revenue or expenditure accounts. The state's accounting system has been upgraded to accept operating transfer transactions.

RECOMMENDATION #25

WE RECOMMEND THE DEPARTMENT ESTABLISH PROCEDURES TO ENSURE OPERATING TRANSFERS ARE PROPERLY RECORDED.

INTERNAL CONTROL

We have examined the financial statements of the Department of Commerce for the two fiscal years ended June 30, 1982 and 1983. We issued our opinion dated December 15, 1983, on these statements. As part of our examination, we made a study and evaluation of the control systems of the department. Our study evaluated the system as required by generally accepted governmental auditing standards for financial/compliance audits. We classified the controls in the following categories:

1. revenue/receivables;
2. payroll;
3. expenditures/payables;
4. cash; and
5. plant, property, and equipment.

We evaluated controls over the categories listed above. Through our study, we determined the nature, timing, and extent of our auditing procedures. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of the department is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide

management with reasonable assurance that: 1) assets are safeguarded against loss from unauthorized use or disposition; 2) transactions are executed in accordance with management's authorization; and 3) transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by the department. However, our study disclosed conditions that indicate internal control weaknesses. These conditions relate to section 8 housing (page 7); plant, property, and equipment (page 11); restrictive endorsement of checks (page 31); and horse racing receipts (page 32).

These conditions were considered in determining the nature, timing, and extent of the audit tests of the financial statements. This report on internal control does not affect our opinion on the financial statements.

The preceding five paragraphs are intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

Cash Collections

Cash collections at the department are decentralized. Some cash receipts are received and recorded by the Management Services Division, but a significant portion of cash is still received by various boards and divisions. The department should work to centralize the collection of all cash received by the department. Centralized cash collection and recording would decrease the department's risk that moneys would be lost or stolen.

The department recently installed an automated billing system for Professional and Occupational Licensing (POL) Bureau. This is a significant step toward centralizing cash collections. This system allows the Management Services Division to identify incoming mail which contains checks. The moneys can then be centrally received, recorded, and deposited. However, many of the boards in the POL Bureau continue to collect and process their own receipts.

Several other divisions receive checks with the mail. For example, the Montana Promotion Bureau received approximately $156,000 in fiscal year 1983; and the bureau estimates it will receive a quarter of a million dollars in fiscal year 1983-84. The Financial Institution Division also collects and processes its own cash receipts.

A department official indicated that when many of the divisions, bureaus, and boards receive checks in the mail it is sometimes difficult to identify which letters contain checks. One method the department can use to identify mail containing checks would be to have each division, bureau, or board instruct those mailing checks to the department to address mail containing checks to Management Services Division. This would help centralize cash collection by ensuring most mail containing checks are received and processed by the Management Services Division.

During our review of the department's cash collection system we also noted some of the divisions and boards do not restrictively endorse checks immediately after opening the mail or upon receipt. This control weakness was noted at the Montana Promotion Division and the Board of Real Estate. State policy requires that all checks received by state agencies be restrictively endorsed immediately upon receipt. By requiring all checks be immediately endorsed the department would reduce the risk that checks would be stolen and cashed.

RECOMMENDATION #26

WE RECOMMEND THE DEPARTMENT:

A. ESTABLISH A CENTRALIZED CASH COLLECTION SYSTEM.

B. IMPLEMENT PROCEDURES TO ENSURE ALL CHECKS ARE RESTRICTIVELY ENDORSED IMMEDIATELY UPON RECEIPT.

Horse Racing Receipts

The Board of Horse Racing receives approximately $40,000 annually for issuing licenses. The Board licenses trainers, jockeys, and others. There are approximately 50 types of licenses issued by board employees at race tracks. The license fees are deposited in local treasury bank accounts. Prenumbered receipts are returned to Helena as support for the amount deposited. When receipts are received by the department a Board employee reconciles the bank deposits to the prenumbered receipts, but they do not account for all prenumbered receipts issued. Board personnel should account for all receipt numbers when reconciling cash collected. Unless the board accounts for all receipt numbers it increases the risk moneys may be lost or stolen without detection.

RECOMMENDATION #27

WE RECOMMEND THE BOARD OF HORSE RACING ESTABLISH PROCEDURES TO ENSURE THAT ITS PERSONNEL ACCOUNT FOR ALL PRENUMBERED RECEIPTS.

SUMMARY OF PRIOR AUDIT RECOMMENDATIONS

The department was formed by combining the Departments of Community Affairs (DCA), Professional and Occupational Licensing, (DPOL), and Business Regulations (DBR). The audits for the DCA and DBR for the two fiscal years ended June 30, 1981 were performed by CPA firms under contract with the office of the Legislative Auditor. The DPOL was last audited by the Office of

the Legislative Auditor for the two fiscal years ended June 30, 1979. During the present audit we followed up on the recommendations made to the three departments. Below is a summary of the status of the recommendations made, including those which are no longer applicable.

Implemented	Not Implemented	Partially Implemented	N/A	Total
25	2	6	5	38

Included in our review of prior audit recommendations are 16 recommendations from a performance audit of DPOL. Of those 16 recommendations the status is:

Implemented	Not Implemented	Partially Implemented	Total
9	1	6	16

Prior audit recommendations partially or not implemented are addressed in various sections of this report.

AUDITOR'S REPORT AND AGENCY FINANCIAL STATEMENTS

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:
JAMES H. GILLETT
FINANCIAL/COMPLIANCE AUDITS
SCOTT A. SEACAT
PERFORMANCE AUDITS
STAFF LEGAL COUNSEL
JOHN W NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Combined Balance Sheet - All Fund Types and Account Group; the Combined Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General and Special Revenue Funds; the Combined Statement of Revenues, Expenses, and Changes in Fund Balance/Retained Earnings - All Proprietary Fund Types and Similar Trust Funds; and the Combined Statement of Changes in Financial Position - All Proprietary Fund Types and Similar Trust Funds of the Department of Commerce as of June 30, 1983, and for each of the two fiscal years ended June 30, 1982 and 1983. Except as explained in paragraph two, our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements for the Housing Authority Enterprise Fund for fiscal years 1981-82 and 1982-83. These financial statements were examined by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the Housing Authority Enterprise Fund, is based solely upon the report of the other auditors.

We noted material weaknesses in the department's internal control over its equipment. We were not able to satisfy ourselves through other audit procedures. As a result plant, property and equipment of the department was not auditable in the general fixed asset group of accounts or in the Enterprise and Internal Service Funds.

The department did not record accounts receivable or deferred revenue for its federal grants in the Special Revenue

Fund for amounts due from, or owed to, federal agencies. Because the department did not properly accrue or defer the amounts in accordance with generally accepted accounting principles, accounts receivable and deferred revenue in the Special Revenue Fund are understated at June 30, 1983. It was not practical for us to determine the exact amount of misstatement to the financial statements, but we believe it is material.

Depreciation expense was not recorded in the West Yellowstone Enterprise Fund or the Internal Service Fund. It was not practical for us to determine the amount of misstatement however we believe it is material

Because of the weaknesses in internal control over fixed assets, as noted in paragraph two, we do not express an opinion on the General Fixed Assets Account Group.

In our opinion, except for the matters discussed in paragraphs two, three, and four, the following financial statements present fairly the financial position or the results of operations and changes in fund balance/retained earnings of such funds of the Department of Commerce as of June 30, 1983 and for the two fiscal years then ended.

1. Fiscal Years 1981-82 and 1982-83

   A. Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Special Revenue Fund

   B. Combined Statement of Revenues, Expenses, and Changes in Retained Earnings - West Yellowstone Airport Enterprise Fund and Internal Service Fund

   C. Combined Statement of Changes in Financial Position - West Yellowstone Airport Enterprise Fund and Internal Service Fund

2. Fiscal Year 1982-83

   Balance Sheet as of June 30, 1983

   Special Revenue Fund
   West Yellowstone Airport Enterprise Fund
   Internal Service Fund

In our opinion, based upon our examination and the report of other auditors, the Balance Sheet of the General Fund, Housing Authority Enterprise Fund, Nonexpendable Trust Fund, and Agency Fund and the related Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and the Combined Statement of Revenues, Expenses and Changes in Retained Earnings and the Combined Statement of Changes in Financial Position present fairly the financial position of such funds of the Department of Commerce as of June 30, 1983 and the results of operations and the changes in fund balance/retained earnings of such funds for the two fiscal years ended June 30, 1982 and 1983, in conformity with generally accepted accounting principles.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedules of Federal Grant Receipts are presented for additional analysis and disclosure purposes and are not a required part of the combined financial statements for the Department of Commerce. These schedules have been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, except for the effects of the matter discussed in paragraph three, are fairly stated in relation to the basic financial statements taken as a whole.

Sincerely,

James Gillett

James H. Gillett, CPA
Deputy Legislative Auditor

December 15, 1983

Approved:

Robert R. Ringwood

Robert R. Ringwood
Legislative Auditor

DEPARTMENT OF COMMERCE
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUP
JUNE 30, 1983

	GOVERNMENTAL FUND TYPES		PROPRIETARY FUND TYPES			FIDUCIARY FUND TYPES		ACCOUNT GROUP
			Enterprise					
	General	Special Revenue	Housing Authority	West Yellowstone Airport	Internal Service	Non-Expendable Trust	Agency	General Fixed Assets
ASSETS								
Cash		$ 3,733,086	$ 73,670	$ 9,081	$16,920	$ 7,042,936	$2,925	
Imprest Cash Funds		50		200	25			
Revolving Cash Funds	$ 2,500	4,500						
Cash on Hand	4,175							
Accounts Receivable - Receipts		591,651				592,447		
Expenditure Abatements Receivable		4,919						
Dishonored Checks	25	990						
FYE Cash Cutoff Adjustment		1,092						
Interest Receivable								
Investment			2,683,649			1,561,915		
Mortgage & Construction Loans			1,968,531					
Due from FYE Cash Cutoff Adjustment	45,042	293,453			60,488	23,644		
Federal Cost Reimbursement Receivable		297,897						
Long-Term Notes and Loans Receivable		2,800,629						
Available to Pay Accrued Expenditures	251,586							
Investments		7,384,424	112,895,270			50,883,853		
Buildings & Improvements				389,630				$ 117,573
Permanent Mortgage Loans			241,661,156					
Accumulated Depreciation - Buildings & Improvements				(141,796)				
Equipment			15,137	111,095	10,315			1,001,254
Accumulated Depreciation - Equipment				(71,848)				
Other Improvements								8,000
Prepayments	2,105	233,576			79			
Expense Advances to Employees	4,445	3,520			561			
Total Assets	$309,878	$15,349,787	$359,297,413	$ 296,362	$88,388	$60,104,795	$2,925	$1,126,827
LIABILITIES & FUND EQUITY								
Accounts Payable		$ 592,447	$ 75,109			$ 2,039,985		
A/P - FYE Cash Cutoff Adjustment	$ 40,069	350,087		$ 553	$ 3,855			
Bonds Payable			331,806,099					
Interest Payable			4,961,126					
Due to FYE Cash Cutoff Adjustment	169,902	515,426		6,366	47,967	6,109,038		
Accrued Expenditures	41,615	233,804		1,141				
Accrued Withdrawals		295,681			595			
Deferred Income			818,608					
Deferred Revenue		495,807						
Reserve for Notes Receivable		4,920						
Accountability for Property Held in Trust							$2,925	
Due to State of Montana	58,292							
Total Liabilities	309,878	2,488,172	337,660,942	8,060	52,417	8,149,023	2,925	
Investment in Fixed Assets								$ 923,057
Donated Fixed Assets								203,770
Fund Balance/Retained Earnings	-0-	12,861,615	2,202,555	288,302	35,971	51,955,772	-0-	
Restricted Fund Balance			19,433,916					
Total Liabilities & Fund Equity	$309,878	$15,349,787	$359,297,413	$ 296,362	$88,388	$60,104,795	$2,925	$1,126,827

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF COMMERCE
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1983

	General Fund			Special Revenue Fund		
	Budget	Actual	Variance- Favorable (Unfavorable)	Budget	Actual	Variance- Favorable (Unfavorable)
REVENUES:						
Licenses & Permits	$ 431,707	$ 134,910	$(296,797)	$ 19,278,343	$ 1,031,478	$(18,246,865)
Taxes					202,349	202,349
Service Fees		363,954	363,954		344,410	344,410
Investment Earnings					2,034,649	2,034,649
Fines					5,169	5,169
Reimbursements		10,240	10,240		7,000	7,000
Sales of Documents, Merchandise, & Property					29,349	29,349
Rentals, Leases, & Royalties					959	959
Miscellaneous					14,464	14,464
Grants, Gifts, Bequests, & Donations					1,184,671	1,184,671
Income Collections		17,557	17,557	800	324,420	323,620
Federal Assistance					7,969,176	7,969,176
Total Revenues	431,707	526,661	94,954	19,279,143	13,148,094	(6,131,049)
EXPENDITURES:						
Business License	171,327	170,569	758	167,208	154,978	12,230
Weights & Measures	396,054	373,312	22,742			
Consumer Affairs	94,870	89,130	5,740			
Financial Bureau	636,030	571,603	64,427			
Milk Control				265,448	225,338	40,110
Professional Occupation License				1,760,304	1,535,293	225,011
Aeronautics				909,370	547,486	361,884
Transportation	341,186	339,595	1,591	5,552,654	1,401,250	4,151,404
Business Assistance	195,769	186,363	9,406	232,130	228,450	3,680
Travel Promotion	727,767	727,335	432	200,000	154,997	45,003
Coal Board	98,704	62,886	35,818	18,006,662	6,011,471	11,995,191
Housing & Community Planning	256,903	246,880	10,023	11,492,149	5,783,559	5,708,590
Economic Development	40,544	39,325	1,219	77,313	60,080	17,233
Indian Affairs	83,686	78,724	4,962			
Total Expenditures	3,042,840	2,885,722	157,118	38,663,238	16,102,902	22,560,336
EXCESS OF CURRENT REVENUES OVER (UNDER) CURRENT EXPENDITURES	(2,611,133)	(2,359,061)	252,072	(19,384,095)	(2,954,808)	16,429,287
Prior Year Adjustment	(29,777)	(29,777)	-0-	(11,604)	(11,604)	-0-
OTHER FINANCING SOURCES (USES):						
Support From State of Montana	2,640,910	2,388,838	(252,072)			
Support From Consolidated Entities				7,921,819	7,921,819	-0-
Operating Transfers Out				-0-	(1,640,980)	(1,640,980)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES)	-0-	-0-	-0-	(11,473,880)	3,314,427	14,788,307
FUND BALANCE, JULY 1, 1982	-0-	-0-	-0-	9,567,655	9,567,655	-0-
Residual Equity Transfers				(20,467)	(20,467)	-0-
Adjusted Fund Balance July 1, 1982				9,547,188	9,547,188	-0-
FUND BALANCE, JUNE 30, 1983	$ -0-	$ -0-	$ -0-	$ (1,926,692)	$12,861,615	$ 14,788,307

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF COMMERCE
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

	GENERAL FUND			SPECIAL REVENUE FUND		
	Budget	Actual	Variance-Favorable (Unfavorable)	Budget	Actual	Variance-Favorable (Unfavorable)
REVENUES:						
Licenses & Permits	$ 165,450	$ 131,600	$(33,850)	$ 1,109,250	$ 882,533	$ (226,717)
Taxes				311,515	262,415	(49,100)
Service Fees	326,840	321,959	(4,881)	327,700	277,156	(50,544)
Investment Earnings				630,000	1,154,140	524,140
Fines				5,600	2,745	(2,855)
Reimbursements	30,500	12,506	(17,994)	33,000	30,944	(2,056)
Sales of Documents, Merchandise & Property				40,120	24,429	(15,691)
Rentals, Leases, & Royalties					180	180
Miscellaneous				100,000	-0-	(100,000)
Grants, Gifts, Bequests, & Donations				134,000	133,409	(591)
Income Collections				341,215	226,815	(114,400)
Federal Assistance				13,814,412	4,249,121	(9,565,291)
Total Revenues	522,790	466,065	(56,725)	16,846,812	7,243,887	(9,602,925)
EXPENDITURES:						
Business License	144,675	144,588	87	148,993	141,928	7,065
Weights & Measures	387,332	375,299	12,033			
Consumer Affairs	85,687	78,200	7,487			
Financial Bureau	575,815	549,479	26,336			
Milk Control				239,826	204,181	35,645
Professional Occupation License				1,621,121	1,361,001	260,120
Aeronautics				928,289	635,935	292,354
Transportation	237,544	237,370	174	4,850,830	983,603	3,867,227
Business Assistance	154,122	146,502	7,620	214,941	139,975	74,966
Travel Promotion	613,545	613,517	28	100,000	84,213	15,787
Coal Board	43,360	26,296	17,064	13,234,623	1,837,034	11,397,589
Housing & Community Planning	232,703	229,576	3,127	9,777,566	3,704,662	6,072,904
Economic Development	32,407	14,358	18,049	67,296	59,980	7,316
Indian Affairs	86,997	74,390	12,607			
Director's Office	806	(68)	874			
Disaster Relief				248,036	160,724	87,312
Total Expenditures	2,594,993	2,489,507	105,486	31,431,521	9,313,236	22,118,285
EXCESS OF CURRENT REVENUES OVER (UNDER) CURRENT EXPENDITRUES	(2,072,203)	(2,023,442)	48,761	(14,584,709)	(2,069,349)	12,515,360
Prior Year Adjustments	34,178	34,178	-0-	(353,689)	(353,689)	-0-
OTHER FINANCING SOURCES (USES):						
Support From State of Montana	2,038,025	1,989,264	(48,761)			
Transfers Out					(4,384,698)	(4,384,698)
Support From Consolidated Entities				8,365,235	8,365,235	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES)	-0-	-0-	-0-	(6,573,163)	1,557,499	8,130,662
FUND BALANCE, JULY 1, 1981	-0-	-0-	-0-	-0-	-0-	-0-
Residual Equity Transfer	-0-	-0-	-0-	8,010,156	8,010,156	-0-
FUND BALANCE, JUNE 30, 1982	$ -0-	$ -0-	$ -0-	$ 1,436,993	$ 9,567,655	$ 8,130,662

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF COMMERCE
COMBINED STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCE/RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1983

	Housing Authority	West Yellowstone Airport	Internal Service	Non-Expendable Trust
OPERATING REVENUES:				
Investment Earnings	$10,471,422			$ 5,981,029
Service Fees	18,981,986		$494,043	
Rentals		$ 77,313		
Reimbursements				
Total Operating Revenues	29,453,408	77,313	494,043	5,981,029
OPERATING EXPENSES:				
Personal Services	198,769	48,908	349,411	
Contracted Services	216,041	2,353	55,935	
Supplies and Materials		1,971	6,637	
Communication		954	10,525	
Travel		490	6,921	
Repair & Maintenance		1,648	4,061	
Rent		88	9,532	
Utilities		7,527		
Other Expenses	24,816,793	6,456	3,931	
Total Operating Expenses	25,231,603	70,395	446,953	-0-
Operating Transfers In (Out)				(5,528,429)
Operating Income (Loss)	4,221,805	6,918	47,090	452,600
Extraordinary Item: bond redemption expense (Note 12)	(636,744)			
Non-Operating Revenue (Expenses):				
Loss on Bond Swaps				(321,312)
Prior Year Items		25,873	(24,212)	41,523
Support from Consolidated Entity				8,004,498
Total Non-Operating Revenue (Exp)	-0-	25,873	(24,212)	7,724,709
Net Income (Loss)	3,585,061	32,791	22,878	8,177,309
FUND BALANCE/Retained Earnings July 1, 1982	18,051,410	255,511	21,166	43,778,463
Residual Equity Transfer			(8,073)	
FUND BALANCE/Retained Earnings June 30, 1983	$21,636,471	$288,302	$ 35,971	$51,955,772

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF COMMERCE
COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCE/RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

	Housing Authority	West Yellowstone Airport	Internal Service	Non-Expendable Trust
OPERATING REVENUES:				
Investment Earnings	$ 7,085,810			$ 4,657,594
Service Fees	15,991,664		$377,651	
Rentals		$ 73,453		
Total Operating Revenues	23,077,474	73,453	377,651	4,657,594
OPERATING EXPENSES:				
Personal Services	178,323	43,847	317,541	
Contracted Services	272,129	5,709	15,318	
Supplies and Materials		2,274	10,229	
Communication		1,062	8,819	
Travel		676	7,505	
Repair & Maintenance		2,760	2,332	
Rent		28	16,706	
Utilities		6,185		
Other Expenses	17,636,149	5,798	3,547	
Total Operating Expenses	18,086,601	68,339	381,997	-0-
Operating Transfers In (Out)			(68)	(1,704,528)
Operating Income (Loss)	4,990,873	5,114	(4,414)	2,953,066
Non-Operating Revenue (Expenses):				
Loss on Bond Swap				(491,322)
Prior Year Items		(30,457)	(8,546)	(926,136)
Support from Consolidated Entity				8,618,685
Total Non-Operating Revenue (Expenses)	-0-	(30,457)	(8,546)	7,201,227
Net Income (Loss)	4,990,873	(25,343)	(12,960)	10,154,293
FUND BALANCE/Retained Earnings July 1, 1981	13,060,537	-0-	-0-	-0-
Residual Equity Transfer	-0-	280,855	34,127	33,624,170
FUND BALANCE/Retained Earnings June 30, 1982	$18,051,410	$255,512	$ 21,167	$43,778,463

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF COMMERCE
COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION
PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1983

	PROPRIETARY FUND TYPES			FIDUCIARY FUND TYPE
	Enterprise			
	Housing Authority	West Yellowstone Airport	Internal Service	Non-Expendable Trust
Sources of Working Capital:				
Operations				
Net Income (Loss)	$ 3,585,061	$32,791	$ 22,878	$8,177,309
Working Capital Provided by Operations	3,585,061	32,791	22,878	8,177,309
Items Not Requiring Working Capital:				
Amortization of Bond Premiums, Discounts, Depreciation, Issuance Costs, and Mortgage Discounts, Net	903,962			
Mortgage Payments				
Scheduled	3,408,194			
Prepaid	1,608,802			
Net Proceeds from Bond and Note Sales	85,000,000			
Repayment of Securities on Loan				933,333
Repayment of Loans Receivable		6,221		
Total Sources of Working Capital	94,506,019	39,012	22,878	9,110,642
Uses of Working Capital:				
Residual Equity Transfer			8,073	
Repayments of Bonds Payable	27,690,000			
Purchase of Mortgage Loans	49,884,120			
Payments of Issuance Costs	2,295,056			
Purchase of Fixed Assets	7,514	6,709	7,851	
Purchase of Investments				8,149,093
Repayment of Loans Payable		25,000	90,000	
Total Uses of Working Capital	79,876,690	31,709	105,924	8,149,093
Net Increase (Decrease) in Working Capital	$14,629,329	$ 7,303	$ (83,046)	$ 961,549
Elements of Net Increase (Decrease) in Working Capital:				
Cash and Short-term Investments	$14,888,126	$ 1,488	$(111,536)	$6,590,999
Due from Other Funds		(11,683)	41,740	(3,791,507)
Due to Other Funds		5,736	(11,972)	(6,109,038)
Expense Advances			561	
Other Prepayments			79	
Interest Receivables	999,370			221,854
Receivables	(7,182)		(22,870)	
Payables	172,036	12,860	20,622	4,049,241
Interest Payables	(989,036)			
Deferred Fee Income	(433,985)			
Accrued Liabilities		(1,098)	330	
Net Increase (Decrease) in Working Capital	$14,629,329	$ 7,303	$ (83,046)	$ 961,549

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF COMMERCE
COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION
PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

	PROPRIETARY FUND TYPES			FIDUCIARY FUND TYPE
	Housing Authority	West Yellowstone Airport	Internal Service	Non-Expendable Trust
Sources of Working Capital:				
Operations				
Net Income (Loss)	$ 4,990,873	$(25,343)	$(12,960)	$10,154,293
Working Capital Provided by Operations	4,990,873	(25,343)	(12,960)	10,154,293
Items Not Requiring Working Capital:				
Amortization of Bond Premiums, Discounts, Depreciation, Issuance Costs, and Mortgage Discounts, Net	134,732			
Mortgage Payments				
Scheduled	8,210,254			
Prepaid	1,572,490			
Net Proceeds from Bond and Note Sales	56,766,313			
Transfers from Merging Entities		12,898	33,918	33,624,170
Loans Payable		25,000	90,000	
Total Sources	71,674,662	12,555	110,958	43,778,463
Uses of Working Capital:				
Repayments of Bonds Payable	13,140,000			
Purchase of Mortgage Loans	1,946,283			
Payments of Issuance Costs	1,814,666			
Purchase of Fixed Assets	6,011	12,415	2,256	
Purchase of Investments				42,734,760
Securities on Loan				933,333
Loans Receivable		6,220		
Total Uses of Working Capital	16,906,960	18,635	2,256	43,668,093
Net Increase (Decrease) In Working Capital	$54,767,702	$ (6,080)	$108,702	$ 110,370
Elements of Net Increase (Decrease) in Working Capital:				
Cash and Short-term Investments	$55,731,564	$ 7,793	$128,481	$ 451,937
Interest Receivable	1,291,458			
Receivables	7,182		22,870	1,340,061
Due from Other Funds		11,683	18,747	4,407,598
Accrued Liabilities		(43)	(925)	
Due to Other Funds		(12,101)	(35,995)	
Deferred Fee Income	(384,623)			
Interest Payables	(1,676,661)			
Payables	(201,218)	(13,412)	(24,476)	(6,089,226)
Net Increase (Decrease) in Working Capital	$54,767,702	$ (6,080)	$108,702	$ 110,370

The notes to the financial statements are an integral part of this statement.

MONTANA DEPARTMENT OF COMMERCE

Notes to the Financial Statements

For the Two Fiscal Years Ending June 30, 1983

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The financial statements were prepared from the Statewide Budgeting and Accounting System.

The State of Montana utilizes the modified accrual basis of accounting for governmental fund types. Expenditures are recorded on the basis of incurred costs or legal liability and revenues are recorded when received in cash unless susceptible to accrual. Revenues are susceptible to accrual if they are measurable and available to finance expenditures of the fiscal period.

The State of Montana follows the accrual basis of accounting for the Proprietary Fund types and the Non-Expendable Trust Funds.

B. Description of Funds

On July 1, 1979, the State of Montana accounts were organized by a fund structure as outlined in section 17-02-102, MCA (temporary). For financial presentation, these funds have been reclassified according to the Governmental Accounting and Financial Reporting Principles Statement 1 issued by the National Council on Governmental Accounting.

GOVERNMENTAL FUND TYPES

General Fund - To account for receipt and expenditure of money allocated to the department by the state for support of the department's programs and agency administration.

Special Revenue Fund - To account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. This fund corresponds to the Earmarked Revenue Fund and the Federal and Private Revenue Fund within the State Treasury fund structure.

PROPRIETARY FUND TYPES

Enterprise Funds - To account for operations (a) that are financed and operated in a manner similar to private business enterprises -- where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Includes operations of Board of Housing and West Yellowstone Airport Accounts in Revolving Fund structure of State Treasury Funds. Depreciation is only used on West Yellowstone Account.

Internal Service Funds - To account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis. Includes Centralized Services and Director's Office Revolving Accounts used to collect charges on Federally Negotiated Indirect Cost Plan of Department. Depreciation is not charged on these funds. An equipment use charge is recovered based on federal guidelines and reconciled with equipment costs on a yearly basis.

FIDUCIARY FUND TYPES

Trust and Agency Funds - To account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Nonexpendable Trust Funds and Agency Funds. Included in this category are the Coal Tax Education Trust Fund and the agency fund of Consumer Affairs set up for the closeout of Great Falls Commercial College.

ACCOUNT GROUP

General Fixed Assets - Accounts for land, buildings, and equipment of the department. Fixed assets are valued at cost. No depreciation is recorded on general fixed assets other than those of the West Yellowstone Airport.

C. Encumbrances

Encumbrances are recorded for purchase orders, contracts and other commitments in order to reserve that portion of applicable appropriations for all funds. At fiscal year-end, in accordance with state policy, major qualifying encumbrances are reclassified as payables and charged as expenditures.

D. Inventories

Supplies are expensed at the time of purchase.

E. Investments

Several funds in the department invest cash amounts through the Investments Division of the Department of Administration. They are the Coal Board Local Impact and Education Trust fund accounts and the Section 8 Existing and Moderate Rehab Administration accounts.

F. Mortgages and Investments

Permanent mortgage loans of the Board of Housing are recorded at amounts disbursed and are carried at their uncollected principal balances. Unearned discounts on mortgages are amortized to earnings over the remaining life of the mortgages. Investments, which are generally intended to be held to maturity, are reported at amortized cost.

G. Provision for Possible Loan Losses

A provision for possible loan losses will be made through charges against operations based on a periodic evaluation of the loan portfolio. Actual losses that occur will be charged against such valuation reserves. No provisions were considered necessary at June 30, 1983 and 1982.

H. Fee Income

Fees collected as reimbursement for costs incurred in developing and implementing the programs of the Board of Housing and for other specific services are recorded as income in the period received. Commitment fees collected in connection with single family mortgages are deferred and recorded ratably as income over the respective commitment period. Commitment fees collected in connection with Multifamily Mortgages are deferred until the end of the respective construction period.

I. Bond Premiums, Discounts, and Costs of Issuance

Bond premiums and discounts of the Board of Housing are amortized, using the interest method, over the life of the bonds to which they relate. Costs of issuance, including underwriter discounts, are amortized using the bonds outstanding method over the life of the bonds.

J. Interest Receivable - Mortgages

Interest on the Board of Housing mortgages is accrued based upon the amount of outstanding mortgage principal. No interest is accrued or income recognized on mortgages more than six months in arrears or under foreclosure.

K. Restricted Areas

Funds set aside for payment of the Housing Authority's revenue bonds and 1 percent of the amount allocated to the housing programs are classified as restricted assets since their use is restricted by applicable bond resolutions.

2. ANNUAL AND SICK LEAVE

Annual leave and sick leave costs are not recorded until leave is taken. Upon termination, qualifying employees with unused accumulated annual and sick leave receive 100 percent payment for annual leave and 25 percent payment for sick leave. The liability amount associated with unused annual and sick leave at June 30, 1982 and 1983 is maintained on an hourly basis. Annual leave is earned based on length of state service (15 days per year, up to 24 days per year). Payouts of leave are made at current payroll rates. The maximum liability for sick and annual leave (including benefits) as of June 30, 1982 and 1983 was: annual (at 100 percent value) $349,165 and $422,297, sick (at one-fourth accumulated) $120,780 and $143,387, respectively. Total liability for the agency at June 30, 1983 of $565,684 is not included in the financial statements.

3. BUDGET INFORMATION

The department utilizes a fixed basis of budgeting. Appropriations of specific dollar amounts are set for each fiscal year in a biennium by the Legislature. Appropriations control the financial operations of the department each fiscal year. At fiscal year end, appropriations (with the exception of continuing appropriations and biennial appropriations) revert to the fund of original appropriation. The reverted appropriation balance may be used in the subsequent year as authorization for valid prior year obligations.

Budget amendments represent the authorization to spend funds not available for consideration by the Legislature but available from sources other than general fund. Budget amendments are approved by the Governor's Office of Budget and Program Planning.

4. RETIREMENT SYSTEM

Department employees are covered under the Public Employees' Retirement System (PERS). Under the plan, the department contributes an amount equal to 6.32 percent in fiscal year 1982 and 6.417 percent in fiscal year 1983 of the employee's gross wages, matched by an employee contribution of 6 percent of gross wages. Total contributions to the plan from the department were $172,624 in fiscal year 1982 and $202,184 in fiscal year 1983. As of June 30, 1982 the Public Employees' Retirement System was determined actuarially sound according to a report by the system's actuary.

5. INSURANCE

The department is insured through the Insurance Division of the Department of Administration.

6. VALUATION OF INVESTMENTS

Short-term investments and state securities are stated at cost. Federal and corporate securities are stated at book value increased by unamortized premiums ($2,443 in fiscal year 1983) and

decreased by unaccumulated bond discounts ($2,082,007 in fiscal year 1983).

Market value of the investments were as follows:

	June 30, 1983
U.S. Government Securities	$ 3,376,854
Corporate Bonds	48,089,624
CD, First National Bank, Browning	100,000
STIP	8,840,999

Generally, the Board of Housing investments are restricted to U.S. Government and Agency obligations and collateralized bank obligations. At June 30, 1983, cash and investments consisted of the following:

	Amortized Cost	Quoted Market Value
Single Family I Program	$ 10,953,851	$ 10,144,223
Single Family II Program	96,298,956	95,034,135
Multifamily Mortgage Prog.	3,462,975	3,484,885
General Fund	2,253,158	2,253,158
Total	$112,968,940	$110,916,401

7. RECONCILIATION OF RESIDUAL EQUITY TRANSFER

The Residual Equity Transfer shown on the Combined Statement of Revenues, Expenses, and Changes in Fund Balance/Retained Earnings for fiscal year 1982 Enterprise Funds is $280,855 and for Internal Service Funds is $34,127. The Transfer from Merging Entities shown on the Combined Statement of Changes in Financial Position for fiscal year 1982 Enterprise Funds is $12,898 and for Internal Service Funds is $33,918. The difference results from Fixed Assets being including on the Statement of Revenues and Expenses but not on the Statement of Changes in Financial Position. Fixed Assets amounted to $481,600 less accumulated depreciation of $213,644 for Enterprise (West Yellowstone Airport) and $209 for Internal Service.

8. CONTINGENT LIABILITIES

A. Bond Issues

The capital reserve account for bond issues sold through the Montana Board of Housing requires an executive budget request to the Legislature (total includes the sum required to restore the capital reserve account to the sum of minimum capital reserve requirements, MCA 90-6-120). Currently, no budget request is necessary as the capital reserve requirements are adequate.

B. Litigation

The department is presently in litigation before the Interstate Commerce Commission and state courts. This claim involves monetary damages against the Burlington Northern Railroad. The potential loss to the state is limited to costs and attorney fees, which can be substantial.

C. Personnel

One personnel appeal and two human rights appeals are in process. Potential liability is unknown at this time.

9. LARGE ITEMS NOT RECORDED ON SBAS - BOARD OF HOUSING

The Montana Board of Housing is a quasi-judicial board created in 1975 by the Legislative Assembly of the State of Montana to facilitate the availability of decent, safe and sanitary housing to persons and families of lower income. The Board is authorized to issue negotiable notes and bonds to fulfill its purposes up to an aggregate amount of $675,000,000. Neither the faith and credit nor taxing power of the State of Montana may be pledged to the payment of amounts so issued.

The bonds issued are payable from mortgage loan repayments and investment earnings. All bonds issued to date are secured by federally insured or guaranteed mortgages. No provision has been made for possible future appropriations by the Legislature to fund any deficiencies. The Board issued $55,000,000 in bonds during

fiscal year 1981-82 and $30,000,000 in bonds during fiscal year 1982-83. Bonds outstanding at June 30, 1983 and 1982 are disclosed in footnote 10. The Board of Housing bonds are payable solely from specified revenues pledged to the payment of the bonds. None of the revenues are deposited in the General Fund.

10. BONDS PAYABLE

	June 30, 1983	June 30, 1982
Single Family I Mortgage Bonds:		
1977 Series A, 4.5% to 8% interest, maturing in scheduled annual installments from October 1, 1980 to October 1, 1992 and on October 1, 2008, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1993 and to optional redemption after various dates at prices ranging from 100 to 103	$ 18,635,000	$ 19,405,000
1977 Series B, 4.15% to 8% interest, maturing in scheduled annual installments from October 1, 1980 to October 1, 1992 and on October 1, 2008, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1993 and to optional redemption after various dates at prices ranging from 100 to 103	30,630,000	31,935,000
1978 Series A, 5.05% to 8% interest, maturing in scheduled annual installments from October 1, 1980 to October 1, 1997 and on October 1, 2003 and October 1, 2009, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1998 and to optional redemption after various dates at prices ranging from 100 to 103	12,150,000	12,615,000
Bonds outstanding	61,415,000	63,955,000
Unamortized bond premiums	8,392	44,089
Unamortized bond issuance costs	(1,018,080)	(1,080,653)
Bonds payable, net	$ 60,405,312	$ 62,918,436

	June 30, 1983	June 30, 1982
Single Family II Mortgage Bonds:		
1979 Series A, 5.10% to 6.6% interest, maturing in scheduled annual installments from June 1, 1981 to June 1, 1997, and on June 1, 2000 and June 1, 2011, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1998 and to optional redemption after various dates at prices ranging from 100 to 102½	$ 97,420,000	$ 98,295,000
1980 Series A, 7.70% to 9% interest, maturing in scheduled annual installments from June 1, 1982 to June 1, 2000, and on June 1, 2012, subject to mandatory sinking fund requirements of scheduled amounts commencing in 2001 and to optional redemption after various dates at prices ranging from 100 to 103	48,100,000	49,100,000
1982 Series A, 8.5% to 13.5% interest, maturing in scheduled annual installments from June 1, 1984 to June 1, 1996, and on June 1, 2002 and 2008, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1997 and to optional redemption after various dates at prices ranging from 100 to 103 (see Note 10)	31,810,000	55,000,000
1983 Series A, 5.25% to 9.875% interest, maturing in scheduled annual installments from June 1, 1984 to June 1, 1998, and on June 1, 2003 and 2009, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1999 and to optional redemption after various dates at prices ranging from 100 to 103	30,000,000	

	June 30, 1983	June 30, 1982
1983 Series B, 8% to 9.625% interest, maturing in scheduled annual installments from June 1, 1991 to June 1, 1996, and June 1, 2003 and 2009, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1997 and to optional redemption after various dates at prices ranging from 100 to 103	55,000,000	
Bonds outstanding	262,330,000	202,395,000
Unamortized bond premiums	124,630	198,067
Unamortized bond discounts and issuance costs	(5,893,965)	(4,600,116)
Bonds payable, net	$256,560,665	$197,992,951

Multifamily Mortgage Bonds:		
1978 Series A, 6.125% interest, maturing August 1, 2019, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1980 and to optional redemption after various dates at prices ranging from 103 to 105	$ 4,795,000	$ 4,820,000
1979 Series A, 5.4% to 6.875% interest, maturing in scheduled annual installments from August 1, 1980 to August 1, 1999 and on August 1, 2021, subject to mandatory sinking fund requirements of scheduled amounts commencing in 2000 and to optional redemption after various dates at prices ranging from 100 to 103	8,505,000	8,565,000
1982 Series A, 12.75% interest, maturing August 1, 2023, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1986 and to optional redemption after various dates at prices ranging from 100 to 103	1,945,000	1,945,000
Bonds outstanding	15,245,000	15,330,000
Unamortized bond premiums	80,317	82,531
Unamortized bond discounts and issuance costs	(485,195)	(499,170)
Bonds payable, net	$ 14,840,122	$ 14,913,361

The income and assets of the three program funds listed above are pledged for the payment of principal and interest on the bonds issued and to be issued by the respective programs. Interest on all outstanding bonds is payable semiannually.

Scheduled bond principal requirements for the five fiscal years subsequent to June 30, 1983 are as follows:

	Single Family I Mortgage Program Funds	Single Family II Mortgage Program Funds	Multifamily Mortgage Program Funds
1984	$2,455,000	$2,425,000	$ 85,000
1985	2,550,000	6,690,000	90,000
1986	2,550,000	6,750,000	90,000
1987	2,490,000	6,540,000	100,000
1988	2,555,000	6,655,000	105,000

11. PERMANENT MORTGAGE LOANS

	June 30, 1983	June 30, 1982
Single Family I Program mortgages receivable, bearing interest at rates varying from 6.875% to 7.50%, original 30 year term, FHA or VA insured	$ 56,324,484	$ 57,831,385
Single Family II Program mortgages receivable, bearing interest at rates varying from 9.75% to 12.5%, original terms ranging from 25 to 30 years, FHA or VA insured	173,189,522	127,024,260
Unamortized mortgage discounts	(1,132,388)	(16,805)
	172,057,134	127,007,455
Multifamily Program mortgages receivable, bearing interest at rates ranging from 7% to 12%, 40 year term, FHA insured	13,347,698	
Unamortized mortgage discounts	(68,160)	
	13,279,538	11,711,920
Combined total	$241,661,156	$196,550,760

12. EXTRAORDINARY ITEM: BOND REDEMPTION EXPENSE

In accordance with the terms of the bond indenture, on June 1, 1983, the Board utilized unused bond proceeds of Single Family Program Bonds, 1982 Series A, to redeem, at par, $23,190,000 of bonds then outstanding. Bonds redeemed were generally those with the earliest scheduled maturity dates. Discounts and costs of issuance attributable to the bonds redeemed were expensed in the current period.

13. COMMITMENTS

At June 30, 1983, the Board of Housing was committed to purchase single family mortgages aggregating approximately $53,143,908 under the Single Family II Mortgage Program.

14. LEASES

The department has leases for fiscal year 1983 totaling $26,571. This included $23,590 for facilities and $2,981 for equipment. Leases are not long term, other than Aeronautics Division land at the Helena regional airport. That lease was paid at onset therefore no continuing payments are being made. Leases should run approximately the same in future periods.

15. NEW ISSUE

During fiscal year 1984 the Board of Housing issued bonds in the amount of $114,998,229, in addition to the bonds outstanding at June 30, 1983 of $338,990,000.

DEPARTMENT OF COMMERCE
SCHEDULE OF FEDERAL GRANT AND SUBGRANT RECEIPTS
FISCAL YEARS ENDING JUNE 30, 1982 AND 1983

	FISCAL YEAR	
	1981-82 Cash Receipts	1982-83 Cash Receipts
DEPARTMENT OF TRANSPORTATION		
Federal Rail Administration		
PL 07 MT 01	$ -0-	$ 914
PL MT 79	11,787	-0-
PL MT 80	104,296	77,161
PL MT 81	-0-	100,000
PR MT 80	-0-	1,993,169
LRSA MT 82	-0-	212,954
PR MT 79	-0-	-0-
Subtotal	116,083	2,384,198
Federal Aviation Administration		
ADAP 6-30-0082-04	-0-	6,896
ADAP 6-30-0082-05	22,050	1,125
ADAP 6-30-0082-06	62,440	99,580
Subtotal	84,490	107,601
Urban Mass Transit Administration		
MT 16 0006	-0-	-0-
MT 16 0007	-0-	-0-
MT 16 0008	254,832	-0-
MT 16 0009	-0-	226,949
MT 09 8006	6,055	-0-
MT 09 8007	22,500	-0-
MT 09 8008	-0-	20,000
Subtotal	283,387	246,949
Federal Highway Administration		
RPTO 830	359,880	494,661
Total	843,840	3,233,409
DEPARTMENT OF AGRICULTURE		
Farm Home Administration		
601	-0-	38,039
111	14,461	31,367
Total	14,461	69,406
DEPARTMENT OF COMMERCE		
Economic Development Administration		
05-25-01582-04	57,850	-0-
05-06-02071-40	30,300	131,232
Subtotal	88,150	131,232
Housing & Urban Development		
CDBG-TA	5,000	45,000
CDBG-Administration	-0-	80,000
CPA-MT-08-00-116-701	4,180	12,194
Section 8 Existing	2,852,112	3,283,043
Moderate Rehabilitation	487,214	1,083,333
Old West Regional	25,000	-0-
Subtotal	3,373,506	4,503,570
FEMA		
640-DR	220,000	5,540
Total	3,681,656	4,640,342
Grant Total	$4,539,957	$7,943,157

AGENCY RESPONSE

DEPARTMENT OF COMMERCE

TED SCHWINDEN, GOVERNOR

1424 9TH AVENUE

STATE OF MONTANA

(406) 444 3494

HELENA, MONTANA 59620-0401

RECEIVED

MONTANA LEGISLATIVE AUDITOR

March 16, 1984

Mr. Robert R. Ringwood
Legislative AUditor
State Capitol
Helena, MT 59620

Dear Mr. Ringwood:

Enclosed is our response to the final report of the financial audit conducted by your office on the Department of Commerce.

We are pleased with the overall outcome of the audit. This is the first time such an audit has been conducted on the Department of Commerce since its reorganization in 1981. As you know, we have had to merge during the past few years financial systems from three separate cabinet-level departments as well as additional new programs. This audit will provide us with a useful management tool in furthering the process of integrating our financial management systems.

In preparing our response to the audit, we have attempted to follow the guidelines contained in your letter of March 6, 1984. I trust the form and content will meet with your approval.

Sincerely,

Gary Buchanan
DIRECTOR

DEPARTMENT OF COMMERCE
AUDIT RECOMMENDATIONS

Recommendation #1:

We recommend the department:

A. Accrue only expenditure transactions that are valid state obligations in accordance with state policy.

Response:

The department does not concur. We feel that signed contracts are valid State obligations and should be considered as such. Valid state obligations exist in the form of Rail Improvement Loan Agreements between the Burlington Northern Railroad Company and the State of Montana in the amount of $1.7 million. These agreements were accruable under the Department of Administration accrual guidelines.

B. Request continuing appropriations for federal funds that will be spent during two or more years.

Response:

The department concurs, assuming that the Office of Budget & Program Planning and the Legislature will recognize the necessity for using continuing appropriations for federal funds in the future.

Recommendation #2:

We recommend the department spend non-general fund moneys to the extent possible before spending general fund moneys as required by law.

Response:

The department in general agrees with the recommendation. However, we also believe the law allows for exceptions to this rule when following it would come into conflict with other State rules. This is an example of conflict between the rule on spending other sources of funds first, and the rule of not committing future legislatures to expenditures of State funds.

The reason for the conflict is as follows. When the State accepts a particular fiscal year of federal grant funds for this program, it also accepts the responsibility to monitor the use of those grant funds for compliance to federal laws for the life of the project funded with the grant monies. Typically, these projects last up to two years beyond the fiscal year in which the funds were accepted by the State.

Rather than commit the State to having to pay for these administrative costs in future years, we believe in budgeting for all of the administrative costs of one fiscal year's projects with the administrative funds allowed for that fiscal year. This is done by

reserving a portion of the federal administrative funds to be spent over the two year time period beyond the fiscal year of grants themselves. By the time the projects are closed out and all administrative responsibilities for that particular group of projects are over, all federal funds available for administrative costs are spent.

Recommendation #3:

We recommend the department properly record revenue and expenditures for grants.

Response:

The department concurs with the recommendation.

The department agrees to use entries suggested by the Legislative Auditor starting in FY 84.

Recommendation #4:

We recommend the department record notes receivable and interest income in the proper funds.

Response:

The Department concurs. Entries have been made to effect changes requested by the Legislative Auditor.

Recommendation #5:

We recommend the department establish an adequate system of internal controls over the Housing Assistance Payments Program.

Response:

The department concurs. The department has already established a method for monthly reconciliation of payments, and the new computer system that will be fully operational by October 1, 1984 will resolve all other internal control weaknesses cited.

Recommendation #6:

We recommend the department establish procedures to ensure payments to Section 8 recipients are correct.

Response:

The department concurs. Through formalized training for field agents and the establishment of policies and procedures, the Section 8 Housing will reduce error rates by June 30, 1984.

Recommendation #7:

We recommend the department conduct visits to Section 8 housing sites in accordance with federal regulations.

Response:

The department concurs. Past program managers did not conduct the required 5% testing for compliance. Starting with fiscal year 1985, requirement will be fulfilled.

Recommendation #8:

We recommend the department:

A. Mark all equipment owned by federal agencies to indicate federal ownership.

B. Submit annual inventory listing of federal equipment to the responsible federal agency.

C. Take a physical count of all federal equipment at least every two years.

Response:

The department concurs with these recommendations. An implementation date of June 30, 1984 has been set.

Recommendation #9:

We recommend the department:

A. Establish procedures to ensure program managers are aware of the federal grant reporting requirements.

B. Comply with federal grant reporting requirements.

Response:

The department concurs with the recommendation. The necessary procedures will be implemented by June 30,1984. The department will always have a problem with timely reporting at our fiscal-year-end period in July, due to the fact that final year-end reports do not come out until approximately July 25, while FSR's are due, for the quarter ended June 30, on July 31.

Recommendation #10:

We recommend the department:

A. Inventory all of its equipment periodically as required by state accounting policy.

B. Record all acquisitions of new equipment and disposal of obsolete equipment on the Property Accountability Management System.

C. Record all equipment status changes on the Property Accountability Management System.

D. Tag each equipment item with a state identification number as required by state accounting policy.

Response:

The department concurs. Procedures to establish and maintain property as specified in the Property Accountability Management System (PAMS) are now in place. An implementation date of June 30,1984 has been set for the physical inventory and tagging of equipment items.

Recommendation #11:

We recommend the department:

A. Transfer the Aeronautics Division buildings and improvements to the Department of Administration's property records.

Response:

The department concurs. The documents to transfer the Aeronautics Division buildings to the Department of Administration were sent to DOA on March 12,1984.

B. Record the Board of Housing equipment on the Property Accountability Management System.

Response:

The department concurs. Equipment used by the Board of Housing is currently being recorded on PAMS for the department.

C. Record depreciation expense for enterprise and internal service funds on the State's financial records.

Response:

The department concurs. The entries necessary to record depreciation for the internal service and enterprise funds will be generated in FY '84.

D. Value its equipment in accordance with state accounting policy.

Response:

The department concurs.

Recommendation #12:

We recommend the department:

A. Establish procedures to ensure equipment disposals are properly authorized.

B. Retain documentation supporting the transfer of equipment to Surplus Property Bureau.

Response:

The department concurs. Procedures for the acquisition and disposal of surplus property have been established in accordance with the State Surplus Property Procedures issued in September, 1983.

Recommendation #13:

We recommend the Board of Housing and the department deposit all money in accordance with Section 17-6-105, MCA.

Response:

The board has, on occasion, deposited cash received from financial institutions for loan allocations in local bank accounts before it is transferred to the trustee specified in the trust indenture for each specific bond issue.

The board will handle cash received from financial institutions for loan allocations in accordance with the trust indenture in effect for each specific bond issue and in accordance with Section 17-6-105, MCA.

Recommendation #14:

We recommend the department:

A. Comply with the law regarding call reports.

Response:

The department does not concur. All states defer to the federal bank supervisory agencies for establishing the format, timing, and instructions for preparation and submission of bank reports of condition. This accomplishes nationwide consistency, and accuracy in data developed from such reports. Records in the financial division show no imposition of a penalty for late reporting during the last 40 years. At this late date it would be unreasonable to invoke this long obsolete section of our banking laws.

B. Evaluate the need for legislation to change the law relating to call report due dates.

Response:

The department concurs. Legislation to modify Section 32-1-235 by lengthening the period from 5 days to 30 days, the period now permitted by federal agencies will be prepared and submitted to the next legislative session.

Recommendation #15:

We recommend the department comply with the law regarding the submission of building and loan reports.

Response:

The department concurs. Procedures for compliance with this recommendation have already been implemented.

Recommendation #16:

We recommend the department:

A. Test raw milk as required by law.

B. Evaluate the need for legislation to change the law regarding raw milk testing.

Response:

The department concurs, but legislative action taken by the 1983 Legislature prohibits the department from spending money to test raw milk for determining butterfat content.

Legislation will be drafted and submitted to delete the testing requirement from the law as soon as possible.

Recommendation #17:

We recommend the department:

A. Deposit the airline property tax in the special revenue fund as required by law.

B. Evaluate the need for legislation to change the law relating to airline property taxes.

Response:

The department concurs. It was clearly the intent of the Legislature that the proceeds of the airline property tax collections resulting from the airline operations at the Yellowstone Airport be deposited into the Yellowstone Airport revolving account and used solely for the operation of that airport. This was also the intent of the department when it initiated the legislative action. We would like to respond to the Legislative Auditor's recommendation #17B by initiating legislative change to correct this technically. Legislation will be initiated in 1985 to correct this situation.

Recommendation #18:

We recommend the department:

A. Enforce state laws requiring that all operable aircraft be registered with the state.

B. Apply the late registration penalty as required by state law.

Response:

The department concurs. The Aeronautics Division has taken the following action: Inasmuch as we feel that the non-compliance with the registration law is directly related to evasion of aircraft taxes, we have met with the property assessment division of the Department of Revenue. The Department of Revenue will step up its effort in requiring county assessors to place stronger emphasis on aircraft tax collection procedures if the Aeronautics Division will provide them with the listing of those aircraft which are not registered with the state. Aeronautics Division personnel have just completed an in-depth review and have provided a list of those owners of record to the Department of Revenue. The Division will also implement stronger administrative and legal action to collect the $100 late registration fee.

Recommendation #19:

We recommend the department:

A. Close the general liquidating account and dispose of the money in accordance with state law.

Response:

The department does not concur. The Financial Division still maintains many records of banks closed by the banking department and liquidated under its direction. Inquiries regarding this information are answered by searching through a variety of unorganized records. The general liquidating fund could best be used by paying for a program to establish a systematic record of this information on closed banks, properly indexed for easy, quick reference. The number of closed state banks exceeds 200. This use of the fund is consistent with the source and purpose of the monies deposited in it. GLA fund should not be "disposed of" by being taken from the Financial Division's supervision.

B. Deposit investment earnings on the account in the general fund.

Response:

The department does not concur. Interest earnings on certificates of deposit held by the GLA should remain with the fund.

Recommendation #20:

We recommend the department comply with the law relating to physical therapists, employees of the Board of Real Estate, and confirmation of board members.

Response:

1. The department concurs. On April 3, 1984 the Board of Physical Therapy Examiners will be establishing a fee for the list which will be charged to interested persons requesting the list.

2. The department does not concur with the findings relating to employees of the Board of Real Estate. The Board of Realty Regulation maintains a current file and listing of all Montana real estate licensees, whether they are brokers or salespersons. Whenever an employee is hired who has a real estate license, it is required that the said licensee be placed on inactive status. The department thus believes that it has adequate control over the situation.

3. The department concurs The two members in question will be submitted to the Senate for confirmation in the 1985 session.

Recommendation #21:

We recommend the department:

A. Establish disaster recovery procedures which will assure housing assistance warrants are produced on a timely basis.

Response:

The department concurs and will request priority designation with the Computer Services Division for processing Housing Assistance payments when emergency computer facilities are in place and operational. The department will prepare a written plan for processing Housing Assistance payments in a disaster situation.

B. Establish rules to implement the computer file security system.

Response:

The department concurs and has established security rules for the department data processing systems as of January 1984.

C. Review changes to production programs to ensure all adjustments were proper and authorized.

Response:

The department does not concur with the statement that "computer programs maintained by the department are not adequately protected against unauthorized changes". Security rules established in January 1984 limit access to computer programs for changes on an as-needed basis if authorized by the data processing manager. All programs, newly developed or modified, are thoroughly tested before production to verify accuracy. Audit suggests that all program modifications be reviewed line by line with total logic review. This level of review, while unnecessary because of thorough testing, would, in fact, double the cost of all development and maintenance work.

Recommendation #22:

We recommend the department establish procedures to ensure notes receivable are properly recorded on its financial records in accordance with state policy.

Response:

The department concurs, but with reservations in the area of airport loans. Entries will be made to correct loans in the rail planning area. The department is not currently complying with proper loan recording procedures (as designated by the Legislative Auditor) for airport loans. The current budget process uses actual expenses from a fiscal year as the normal operating basis for current level operations of the next biennium. Recording the entires suggested by the Legislative Auditor results in no expenditure basis for preparation of future current level budgets. The department is concerned with the possibility of leasing future expenditure authority to support airport loans. If there is a way to properly word airport loans without the risk of losing future appropriation authority, the proper loan rewording procedures will be implemented.

Recommendation #23:

We recommend the department record revenue in accordance with state policy.

Response:

The department concurs with the recommendation. The department will record deferrals and accruals of revenue as suggested by the Legislative Auditor on the fiscal year end SBAS reports beginning in fiscal year 1984 for any amounts of material value.

Beginning with the calendar year 1984, examinations of banks are not paid for when conducted. Banks now pay a semi-annual supervisory fee whether examined or not.

Recommendation #24:

We recommend the department accrue expenditures for services in accordance with state policy.

Response:

We concur. State policy will be followed at all times in the future.

Recommendation #25:

We recommend the department establish procedures to ensure operating transfers are properly recorded.

Response:

The department concurs with the recommendation. The department will use transfer accounts starting in fiscal year 1984

Recommendation #26:

We recommend the department:

A. Establish a centralized cash collection system.

Response:

The department concurs with the recommendation. However, extra personnel and funding would be needed to adopt a fully centralized cash collection system in the department. At this time, the department programs cannot afford the cost for extra services which would be required to implement the recommendation.

B. Implement procedures to ensure all checks are restrictively endorsed immediately upon receipt.

Response:

The department concurs with the recommendation. The department will implement procedures necessary for restrictive endorsement of checks during FY 84.

Recommendation #27:

We recommend the Board of Horse Racing establish procedures to ensure that its personnel account for all prenumbered receipts.

In reference to the Audit Response, The Department concurs with the recommendation. It should be noted, however that pre-numbered receipts were filed; however, they were filed alphabetically rather than numerically.

Beginning in 1984, the Board will utilize a five-part license with one copy going to licensees as their receipt, one copy staying with the Steward at the track where the license was issued, one copy going to the other major track, one copy going to the Board office for purposes of reconciliation with deposits and filed alphabetically for quick reference. The fifth and new copy will also go to the Board office, but will be filed numerically to satisfy concerns set forth by the Audit.